

November 2002



DFI OFFICE RELOCATION

As of October 21, 2002, the Department of Financial Institutions relocated from the Indiana Government Center to 30 South Meridian Street, Suite 300, Indianapolis, Indiana 46204. 30 South Meridian is a twelve story building situated in the heart of downtown Indianapolis. This historic building, which is connected to Circle Center Mall, was completely renovated in 1995. The building has a total of 356,000 square feet, 5 passenger elevators, conference facility, work out facilities and a roof top garden terrace. 30 South Meridian also features a parking garage containing 842 parking spaces.



***30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204***

Picture courtesy of Kite's Construction Website

WINTER 2002 EDITION

Inside this issue:

Overdraft Protection Programs	2
Federal Reserve Board Request for Comments on Bounce Protection	6
Rollover Mortgages	7
Chronology of Application Activity	9
June 30, 2002 Financials	10
Employee Spotlight	12
Mission Statement	14

Overdraft Protection Programs

The Department has become aware that several banks have implemented various vendor-designed or in-house Programs to generate income resulting from consumers writing checks without sufficient funds to cover the checks. There are several variations of such Programs. Recently four on-site examinations of such Programs were conducted.

Of the banks examined most offer the Program to each consumer checking account customer whose account is in good standing. Each bank defines good standing individually; however, most include some variation of the following:

1. The account must be open for at least 30 - 60 days.
2. Make at least two deposits during the first 30 - 60 days.
3. Deposit at least \$1,000 total during the first 30 - 60 days.
4. Continue to make regular deposits consistent with past practices.
5. Not be in default on any loan obligations to the bank.
6. Not be subject to any legal or administrative order or levy.

It was noted, the term “regular deposits” was customized for each individual bank. For example, one bank defined regular deposits as making a \$500 or more deposit in the account in each 30-day period while another bank defined it simply as bringing the account to a positive balance at least once every 30 days.

The Overdraft Programs offer all consumers in good standing a coverage limit ranging from \$300 to \$1,000. The customer is not required to apply for the Program or sign anything. Customers can access the program as follows:

1. Checks and other debits cashed at the teller windows.
2. Checks issued to a third party.
3. Check Card or ATM card.
4. Through online banking or voice banking line.
5. ACH debit transactions.
6. Any other transactions honored through a personal checking account.

In all instances the customer’s account is charged the bank’s standard overdraft fee usually \$20.00-\$25.00 for each item presented for payment. Some banks also assess a per day fee as long as the account contains a negative balance. In most instances the customer has 30 days to bring the account to a positive balance.

If the account is not brought to a positive balance within 30 days, the customer must sign an agreement to pay the overdraft in installments; usually no additional charges, fees, or finance charges are imposed. Assuming the original extension of credit was not subject to Regulation Z and the consumer is in default, a new agreement permitting the consumer to pay the delinquent debt in installments would not be subject to Regulation Z unless the rate is increased, or the new amount financed exceeds the unpaid balance plus accrued fees. (Regulation Z, Section 226.20)

Generally, banks do not market the Program on television or radio. Brochures and printed ads for checking accounts simply mention that the Program is available. Some documents are more specific, for example one bank’s website and several banks’ brochures contain statements such as:

Save yourself embarrassment and fees when you make an honest mistake in your check-book, have an unexpected emergency or run short of cash between paydays. Instead of returning checks unpaid, the bank Program will automatically pay them up to a pre-determined limit.

You can access the bank Program through checks, automatic withdrawals, your check card or ATM card, online banking and voice banking line. As long as you stay under your limit, all overdrafts will be approved. After using the Program, you have thirty days to bring your account to a positive balance.

Most of the banks examined also offered a traditional overdraft line of credit account.

IC 24-4.5 INDIANA UNIFORM CONSUMER CREDIT CODE:

IC 24-4.5-3-106 defines a loan to include:

- (1) the creation of debt by the lender’s payment of or agreement to pay money to the debtor or to a third party for the account of the debtor;
- (2) the creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately;
- (3) the creation of debt pursuant to a lender credit card or similar arrangement; and
- (4) the forbearance of debt arising from a loan.

Note IC 24-4.5-3-106 does not require a written agreement, and IC 24-4.5-1-301(1) defines agreement to mean the bargain of the parties in fact as found in their language or by implication from other circumstances, including course of dealing or usage of trade or course of performance.

Overdraft Protection Programs Continued.....

IC 24-4.5-3-104 defines a consumer loan as a loan made by a person regularly engaged in the business of making loans in which:

- (a) the debtor is a person other than an organization;
- (b) the debt is primarily for a personal, family, or household purpose;
- (c) either the debt is payable in installments or a loan finance charge is made; and
- (d) either the principal does not exceed fifty thousand dollars or the debt is secured by an interest in land or by personal property used or expected to be used as the principal dwelling of the debtor.

IC 24-4.5-3-109 defines loan finance charge to be the sum of :

- (a) all charges payable directly or indirectly by the debtor and imposed directly or indirectly by the lender as an incident to the extension of credit, including any of the following types of charges which are applicable: interest or any amount payable under a point, discount, or other system of charges, however denominated, premium or other charge for any guarantee or insurance protecting the lender against the debtor's default or other credit loss; and
- (b) charges incurred for investigating the collateral or credit-worthiness of the debtor.

To determine if the banks' fees for coverage of an overdraft are finance charges under IC 24-4.5, transactions conducted on accounts with the protection of the Program must be compared to transactions conducted on accounts without the protection of such Program.

Comparison 1:

A consumer who has a \$0.00 balance in his or her checking account writes a check to a grocery store for \$125.00. If the consumer has the protection of the Program, the check is covered and the consumer is charged a standard overdraft fee (\$20.00-\$25.00). At some banks the consumer may also be charged a \$5.00 per day fee until the account is brought to a positive balance. If the consumer does not have the protection of the Program, the bank may or may not choose to cover the check. If the bank chooses to cover the check, the consumer is charged a standard NSF fee (\$20.00-\$25.00) and at some banks a \$5.00 per day fee. If the bank chooses not to cover the check the consumer is charged a standard NSF fee (\$20.00-\$25.00) and no per day fee. The customer may also be charged an NSF fee by the merchant.

In this comparison the standard overdraft fee (\$20.00-\$25.00) charged to the consumer would not be a finance charge under IC 24-4.5 because the charge is not imposed as an incident to the extension of credit. Some proponents state that the \$5.00 per day fee is not a finance charge provided the bank contracts for a per day fee in the checking account agreement that they have with all customers. Although a \$5.00 per day fee would never be imposed if the bank chooses not to cover the check, the bank is contractually able to cover the check on an account without the protection of the Program and impose the \$5.00 per day fee. Others state that per day fees assessed in connection with the protection of the Program are finance charges because per day fees are assessed as an incident to or a condition of the extension of credit.

Comparison 2:

A consumer who has a \$0.00 balance in their checking account attempts to make a \$200.00 withdrawal at an ATM. If the consumer has the protection of the Program, the consumer receives \$200.00 from the machine and is charged a standard overdraft fee (\$20.00-\$25.00) for this service. At some banks the consumer may also be charged a \$5.00 per day fee until the account is brought to a positive balance. If the consumer does not have the protection of the Program, the consumer receives \$0.00 from the machine and is charged nothing for making the attempt.

In this comparison the standard overdraft fee (\$20.00-\$25.00) and any per day fee charged to the consumer could be finance charges because the charges are assessed as an incident to or a condition of the extension of credit.

In reference to the Programs offered by the banks where consumers overdraft their accounts in any manner except by a check to a third party:

- (a) the debtor is a person other than an organization;
- (b) the debt is primarily for a personal, family, or household purpose;

Overdraft Protection Programs Continued.....

- (c) a loan finance charge is made (a fee is imposed and is payable directly by the debtor and is imposed directly by the lender as an incident to the extension of credit); and
- (d) the principal does not exceed fifty thousand dollars.

Some proponents of such Programs have revised their Program to make it clear that there is a contractual written agreement between the bank and the customer. However, they state that their Program is not a “consumer loan” because the charge per item is the same to all depository customers; therefore, a finance charge is not being imposed. There is also no per day fee assessed.

However, the Programs offered by the banks where consumers are assessed fees as an incident to the extension of credit, such as accessing the Program through an ATM, could be subject to IC 24-4.5. All charges imposed as an incident to the extension of credit are loan finance charges and the loans made may be considered usurious under IC 35-45-7-2, and considered loan sharking, a felony. This issue may have to be resolved by a court in Indiana.

REGULATION Z, THE TRUTH-IN-LENDING ACT: (12 CFR 226 and IC 24-4.5-3-301)

The key issue under Regulation Z is whether an agreement exists between the bank and the accountholder to which the bank will honor an overdraft. Regulation Z, Section 226.4(c)(3) of the Official Staff Commentary clarifies charges imposed by a financial institution for paying items that overdraw an account are excluded from the finance charge unless the payment of such items and the imposition of the charge (**per item fee and/or per diem fee**) were previously agreed upon in writing. Therefore, proponents state that as long as the financial institution does not agree in writing to pay such overdrafts, a charge assessed to a consumer for overdrawing an account, whether it is a per item fee or a per diem fee, will never be a finance charge for disclosure purposes under Regulation Z.

Some proponents of such Programs have revised their Program to make it clear that there is a contractual written agreement between the bank and the customer.

Others state that their Program is not subject to Regulation Z because there is not a “written agreement” between the bank and the accountholder to which the bank will honor an overdraft. (Regulation Z, Section 226.1(c)) However, many accountholders are receiving various correspondences and marketing materials containing language that may be interpreted as a written agreement in which the accountholder relies on the bank to cover their overdrafts making the Program subject

to Regulation Z. For example:

- Many of the Programs have an overdraft policy containing language similar to, the bank is not obligated to pay any item presented for payment if the account does not contain sufficient funds and normally we will not approve an overdraft for you in excess of **the pre-determined** amount assigned to your account.
- In some correspondences and or marketing materials the bank is using phrases such as; The Program **will provide** you a safety net that **will permit** you to overdraft your account... and ...we **will honor** overdrafts... and ... the bank **will pay** the item... and ...you **will** be authorized to withdraw money from the ATM up to the full amount of your Program limit.
- The available balance, in some instances, is being reflected on the accountholders ATM receipts, overdraft letters, and is being disclosed through the bank's 24-Hour Touch Tone Banking system.

The Administrators of the Programs intend the non-binding obligation language used in certain of these documents to remove the existence of any written agreement to honor overdrafts. But the mere fact that these same documents also indicate that the Bank contemplates honoring overdrafts as a general banking policy when certain conditions are met conceivably could be sufficient to constitute the requisite written agreement.

Assuming there is an agreement between the bank and the accountholder raises another Regulation Z issue, whether the fee charged in connection with the overdraft is a “finance charge?” Section 226.4(b)(2) of Federal Regulation Z provides service, transaction, activity, and carrying charges, including any charge imposed on a checking or other transaction account to the extent that the charge exceeds the charge for a similar account without a credit feature, are finance charges. Therefore, to determine if the bank's overdraft fee is a finance charge, transactions conducted on accounts with coverage must be compared to transactions conducted on accounts without coverage.

Overdraft Protection Programs Continued.....

To illustrate; an accountholder has \$0.00 in his checking account and uses a debit card to pay for a \$200 bill at a grocery store. If the accountholder has a credit feature, the transaction is approved. The consumer leaves the store with \$200 in groceries and is charged \$20.00. If the consumer does not have a credit feature, the grocery store electronically inquires to determine if the consumer has sufficient funds available to cover the \$200 grocery bill. If not, the consumer leaves the store with no groceries and no fee is imposed.

Regulation Z, Section 226.4(b)(2) and the Official Staff Commentary provides that fees imposed for paying an item that overdraws an account with a credit feature are not finance charges unless the fees exceed the charge for a similar account without a credit feature. Any amounts imposed in excess of the charge for a similar account without a credit feature would be finance charges.

Although no fee is imposed in the above illustration for electronically rejecting the item, the Bank is contractually able to pay the item on a similar account without a credit feature and assess a \$20.00 overdraft fee. This principle works the same if a per diem fee is imposed as long as the Bank contracts for overdraft fees (to include a per diem fee) in the checking account agreement. Therefore, these fees (including a per diem fee) are not finance charges under Regulation Z for disclosure purposes.

OTHER AREAS OF CONCERN AND QUESTIONS:

Although there are apparent differences in the implementation/underwriting of the Program at the various participating institutions, the following are several areas of concern and questions that were common among the majority of the participating banks.

- In most cases, as long as the consumer maintains an account in good standing (defined as making regular deposits and bringing the account to a positive balance at least once every 30-60 days) the bank may honor overdrafts up to the Program's limit. A new account holder who has maintained a personal checking account in good standing, will be able to use the Program 30-60 days after the account has been opened. Is 30-60 days long enough to determine if an account is in good standing? Can the bank establish an accountholder is making regular deposits in a 30-60 day period?
- In some of the banks, the decision to pay an overdraft item on accounts with the Program is usually auto-

matic, via the bank's computer system, provided there is a sufficient dollar amount available within the Program's available limit. However, once an account is given access to the Program there is not a system in place to verify if the accountholder is still in good standing and making regular deposits. For example, an accountholder may not have made a deposit for 180 days and yet the bank's computer system will automatically pay an overdraft. Should there be a system in place to verify the accountholder is still in good standing before paying an overdraft?

- In the majority of the banks, there were no controls on how many times an accountholder could access the Program. For example, an accountholder can access the Program for \$400 on the 20th of each and every month and pay it back on the 1st when he gets paid. Therefore, a consumer may be able to use the Program as a regular source of cash as he runs short each and every month. This could lead to a type of "debt treadmill" situation. The customer is in a situation where he or she may become obligated for more in fees than the original principal amount.
- No cooling off period exists following repayment of an overdraft during which no overdrafts would be paid, thus increasing the likelihood a customer would consciously resort to the Program to pay for ordinary day-to-day expenses.
- An unlimited number of overdraft charges, in the majority of the banks reviewed, could be levied during a 30-day period as long as the accountholder did not exceed his or her Program limit. It was further noted, some of the banks changed their method of paying checks from a low to high sequence to a serial number order with the sole purpose of increasing their fee income.
- If the program is intended to cover accountholders when they inadvertently overdraw their account, why is there a need for a \$1,000 available limit?
- Are the depository institutions informing accountholders of available alternatives for short-term borrowing, explaining the costs and advantages of various alternatives such as a traditional overdraft line of credit? Is the institution doing anything in terms of educating the consumer about the importance of wise money management? Is the institution identifying possible contingent liability risks if they were to be sued under this program? Has the bank's Board of Directors been made aware of the program and possible contingent liabilities?

Overdraft Protection Programs Continued.....

- Has the depository institution obtained third party legal advice prior to entering into the Program including a review of the OCC Interpretive Letter #914 from September of 2001 and the DFI overdraft advisory dated February of 2002? This advice should be independent of any legal advice from an attorney representing a third party vendor who is marketing the program to the bank.
- In some circumstances, the charges assessed on accountholders may be just as burdensome or more so as those imposed on borrowers utilizing other types of high interest rate credit such as payday loans.
- Is the institution aware the Federal Reserve is concerned about these programs and is presently seeking public comment in a proposed rule 12 CFR 226 Docket No. R-1136-Comment is being sought as to how such charges are to be treated under Regulation Z and other consumer laws.
- Has the bank fully considered the public policy issues regarding encouraging customers to write checks on funds that are not available where it is obvious that such programs exist primarily to generate and increase fees.

Federal Reserve Board Request for Comments on Bounce Protection

“Bounce Protection” - Some financial institutions offer a service to transaction account customers commonly referred to as “bounce protection” in lieu of establishing an overdraft line of credit for the customer. Under regulation Z, the finance charge does not include a charge imposed by a financial institution for paying items that overdraw an account, unless, as is typically the case for overdraft lines of credit, the payment of such items and the imposition of the charge are previously agreed upon in writing. Fees imposed in connection with “bounce protection” services may or may not meet the definition of a finance charge. The Board is soliciting comment on how “bounce protection” services are designed and operated and how these services should be treated for purposes of regulation Z.

For more information on the Federal Reserve Board’s proposal, please refer to <http://www.federalreserve.gov/boarddocs/press/bcreg/2002/20021126/attachment.pdf>. Comments must be received on or before January 27, 2003. Comment letters should refer to Docket No. R-1136 and may be mailed electronically to regs.comments@federalreserve.gov.



Rollover Mortgages

Although rollover mortgage (ROM) loans have been authorized since the early 1980s, several compliance issues relating to ROM loans have been revealed during recent examinations. A ROM is a specific type of adjustable-rate mortgage authorized by IC 28-1-13-7.1 that can be made by a state chartered bank. The major difference between a ROM and a traditional adjustable-rate mortgage is that rate changes do not have to be tied to an external index.

A ROM must be secured by a first mortgage on real estate improved by a dwelling for one to four families or a combination home and business building.

A state chartered bank may make a ROM loan subject to the following requirements and restrictions:

1. At each scheduled adjustment time, if the loan is not in default, the lender shall make rate adjustments available for the amount of the outstanding loan for the remaining term of the loan.
2. Any adjustment in the loan must be made without administrative charges to the borrower.
3. Scheduled adjustments of the loan must be at least one year apart.
4. The lender may not charge any penalty or other assessment for the prepayment of the loan the borrower at the time of any adjustment.
5. At each schedule adjustment time, the lender and the borrower may agree to increase or decrease the interest rate applicable to the outstanding balance of the loan.
6. At the option of the lender, the borrower may be granted the option to extend the amortization period for purposes of calculating monthly payments on the loan in accordance with the following rules:
 - a) The extension of the amortization period may equal up to one-third of the original amortization period, irrespective of whether this extends the amortization period beyond thirty years.
 - b) To the extent of any extension of the amortization period, the amortization period will be reduced upon a subsequent downward adjustment in the interest rate.

If a state chartered bank chooses to make ROM loans, they should remember:

- They must use a “Rollover Mortgage Note” that complies with all provisions of IC 28-1-13-7.1.
- An external index is not required.
- New note and new TILA disclosures are not required at time of adjustment.
- Rate change notices must comply with Regulation Z Section 226.20(c).
- A written notice of refinancing must be provided to borrower.

Many banks attempt to make ROM loans using legal documents designed for standard adjustable-rate mortgages. There is more to making a ROM loan than just using standard adjustable-rate mortgage documents and tying rate adjustments to an internally defined index. Banks choosing to make ROM loans must use legal documents that are specifically designed for ROM loans and that comply with all provisions of IC 28-1-13-7.1.

Another mistake commonly noted is when a bank simply provides a consumer a rate change notice that complies with the requirements of TILA. In connection with a traditional adjustable-rate mortgage, complying with the requirements of TILA is all that is required; however, in connection with a ROM loan, a written notice of refinancing to the borrower must also be provided. A written notice of refinancing must include a notice to the borrower of the availability of refinancing, the ability to prepay the loan balance without penalty during the scheduled adjustment period, and a confirmation of agreement to the new rate. Provided below is a sample rate change notice. This notice includes the requirements of TILA as well as the requirements specific to a ROM loan.

Rollover Mortgages Continued.....

Sample Rate Change Notice for ROM Loan

The interest rate on your real estate mortgage loan with XYZ State Bank is scheduled to adjust in 30 days. The new rate shown below is based on our current mortgage rate. If you would like to discuss other options available to you, please give us a call or stop in.

Loan Number: 1234567
Current Balance: \$21,427.53

Change	From	To	On
Interest Rate	7.00%	6.125%	10/31/02
Payment	\$287.54	\$278.21	11/30/02

Rate Change Frequency: 12 months
Projected Balance: \$21,071.90

Next Change Date: 10/31/03
Maturity Date: 10/31/10

The rate change described above is being made in accordance with the terms of your mortgage note and the provisions of IC 28-1-13-7.1. IC 28-1-13-7.1 reads in part as follows: "In addition to loans authorized by subsection (d), a state chartered bank may make rollover mortgage loans. A rollover mortgage loan made by a state chartered bank is subject to the following requirements and restrictions:

1. At each scheduled adjustment time, if the loan is not in default, the lender shall make rate adjustments available for the amount of the outstanding loan for the remaining term of the loan.
2. Any adjustment in the loan must be made without administrative charges to the borrower.
3. Scheduled adjustments of the loan must be at least one year apart.
4. The lender may not charge any penalty or other assessment for the prepayment of the loan the borrower at the time of any adjustment.
5. At each schedule adjustment time, the lender and the borrower may agree to increase or decrease the interest rate applicable to the outstanding balance of the loan.
6. At the option of the lender, the borrower may be granted the option to extend the amortization period for purposes of calculating monthly payments on the loan in accordance with the following rules:

- a. The extension of the amortization period may equal up to one-third of the original amortization period, irrespective of whether this extends the amortization period beyond thirty years.
- b. To the extent of any extension of the amortization period, the amortization period will be reduced upon a subsequent downward adjustment in the interest rate."

If the above interest rate is acceptable to you please begin using the enclosed coupons beginning with your payment due on November 30, 2002.

Sincerely,

John B. Smith
Vice President

IC 28-1-13-7.1 provides a state chartered bank the privilege of making adjustable-rate mortgage loans without having to tie adjustments to an external index. However, this privilege comes with additional requirements, responsibilities, and compliance issues. A state chartered bank making ROM loans or considering making ROM loans should review internal documents, policies, and procedures to ensure these additional requirements, responsibilities, and compliance issues have been sufficiently addressed.



Chronology of Application Activity

So far in 2002, the Department has approved the formation of two corporate fiduciaries. State chartered corporate fiduciaries are regulated solely by the Department. The Members of the Department approved the formation of Hoosier Trust Company on March 14, 2002. Located in Indianapolis, IN, Hoosier Trust Company provides a full range of trust services, including personal trust, investment management, custody, estate and guardianship administrative services and IRA administration. It commenced operations on March 15, 2002.

The Members approved the formation of German American Financial Advisors & Trust Company on June 13, 2002. German American Financial Advisors & Trust Company, an indirect subsidiary of German American Bancorp, is located in Jasper, Indiana. German American Bancorp is a multi-bank holding company with five state chartered subsidiary banks. German American Financial Advisors & Trust Company was formed to consolidate the trust business of the affiliate banks into one entity. It commenced operations on July 1, 2002.

The Members also approved the conversion of two federally chartered institutions to state chartered commercial banks. Peoples National Bank, Washington, Indiana, with total assets of \$189,599M as of June 30, 2002, converted from a national association to a commercial bank effective March 1, 2002. First American Bank, Vincennes, Indiana, with total assets of \$208,318M as of June 30, 2002, converted from a federal savings bank to a commercial bank also effective March 1, 2002. Both institutions are wholly owned subsidiaries of German American Bancorp.

The Department is currently processing a Plan of Conversion from The Knisely National Bank of Butler, Butler, Indiana to convert from a national association to a state chartered commercial bank. As of June 30, 2002, The Knisely National Bank of Butler reported total assets of \$52,542M.

Mergers of state chartered institutions this year include Heritage Bank of Southern Indiana, Jeffersonville, IN merging into its sister affiliate Community Bank of Southern Indiana, New Albany, IN and Union Bank and Trust Company of Indiana,

Greensburg, IN merging into its sister affiliate Peoples Trust Company, Brookville, IN. In conjunction with this merger, Peoples Trust Company was renamed MainSource Bank and relocated its main office to Greensburg, IN.

The Members also approved the merger of Blue River Federal Savings Bank with and into Salin Bank and Trust Company, Indianapolis, IN. The effective date of this merger was November 22, 2002.

The members approved an application to merge Sand Ridge Bank, Highland, IN, with Bright National Bank, Flora, IN, and National Bank of Hastings, Hastings, MI. Sand Ridge Bank survived the merger which was effective November 15, 2002.

The Department has also received and accepted an application for a new commercial bank to be headquartered in Kokomo, Indiana. It is anticipated that the Members will act on this application at the December Members Meeting.

Finally, the Department has been informed that an application has been filed with the Comptroller of the Currency for MetroBank, Carmel, Indiana, to merge with and into First Indiana Bank, National Association, Indianapolis, Indiana. MetroBank is a state chartered commercial bank with total assets of \$172,018M as of June 30, 2002.



June 30, 2002 Financials

INCOME STATEMENT

ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	State 6/30/02	National 6/30/02	State 12/31/01	National 12/31/01	State 12/31/00	National 12/31/00	State 12/31/99	National 12/31/99
Number of Banks	130	32	129	33	128	31	131	33
Income Statement								
Total Interest Income	1,179	2,202	2,681	4,537	1,901	3,958	1,759	2,739
Total Interest Expense	477	702	1,344	2,079	949	2,063	799	1,201
Net Interest Income	701	1,499	1,337	2,458	952	1,895	960	1,538
Total Non Interest Income	295	997	638	1,722	375	1,217	237	1,532
Loan Provisions	77	186	127	406	55	186	46	120
Total Non Interest Expense	603	1,339	1,200	2,681	816	2,220	689	1,805
Net Income	215	640	442	740	285	413	284	730

Ratio Analysis

Net Income to Average Assets	1.10%	1.84%	1.17%	1.14%	1.17%	0.80%	1.19%	1.85%
Net Income to Total Equity	10.18%	19.46%	11.16%	11.83%	11.33%	7.90%	12.17%	19.45%
Net Interest Income to Average Assets	3.60%	4.30%	3.55%	3.79%	3.91%	3.65%	4.02%	3.89%
Total Loans to Average Assets	66.60%	69.70%	66.14%	83.23%	74.54%	77.87%	73.76%	64.67%
Total Loans to Total Deposits	88.10%	135.18%	86.40%	135.25%	88.11%	116.09%	88.95%	97.15%
Loan Loss Provisions to Total Loans	0.30%	0.38%	0.51%	0.75%	0.30%	0.46%	0.26%	0.47%
Loan Loss Reserves to Total Loans	1.38%	1.49%	1.31%	1.27%	1.26%	1.39%	1.35%	1.65%
Net Charge-Offs to Total Loans	0.40%	0.60%	0.35%	0.66%	0.17%	0.43%	0.13%	0.44%
Total Equity Capital to Total Assets	10.49%	9.09%	10.11%	8.21%	9.63%	8.78%	9.13%	9.29%
Total Equity Capital and Reserves to Total Assets and Reserves	11.27%	10.00%	10.86%	9.03%	10.41%	9.63%	9.96%	10.23%

From January 1, 2002, to June 30, 2002, the number of state-chartered commercial banks, stock and mutual savings banks, and active industrial authorities slightly increased from 129 to 130. During the same period total supervised assets increased from \$39.2 billion to \$40.3 billion. As of June 30, 2002, state-chartered commercial banks represented 36% of total Indiana bank assets (state and national). In contrast, state-chartered commercial banks represented 80% of the total number of such banks in the state of Indiana. As of June 30, 2002, there were 32 national and 130 state-chartered banks in Indiana.

So far, during the calendar year of 2002, one national bank and one federal stock savings bank converted to state-chartered commercial banks, Peoples National Bank, Washington and First American Bank, Vincennes, both affiliated with German American Bancorp, Jasper, Indiana. One state bank charter, Heritage Bank of Southern Indiana, Jeffersonville, Indiana, was eliminated through a merger with affiliate Community Bank of Southern Indiana, New Albany, Indiana.

Despite the downturn in the economy and the national stock markets, the first half of 2002, continued to show the resiliency of Indiana state-chartered financial institutions as defined in condition and performance. Annualized net income as a percentage of average assets decreased slightly from 1.17% as of December 31, 2001 to 1.10% as of June 30, 2002. The aggregate loan and lease loss allowance increased from 1.31% of total loans in 2001 to 1.38% of total loans as of June 30, 2002. So far this year annualized net charge offs have increased to 0.40% of total loans compared to 0.35% for 2001. Equity capital remains at an adequate level as equity capital increased from 10.11% to 10.49% of total assets from year-end 2001, to June 30, 2002.

As of June 30, 2002, there were six active savings and loan associations operating under Indiana state charter. The number of active savings and loan associations has remained the same since year-end 1999. Total assets held by state-chartered associations increased by \$3.8 million over the last six months to a total level of \$455 million as of June 30, 2002. Savings associations range in size from \$176 million to \$1 million. As of June 30, 2002, total net income for the savings associations was \$917 thousand compared to \$1.4 million at year-end 2001, and \$2.7 million for year-end 2000. Net income represents 0.40% of total assets annualized as of June 30, 2002. Net income represented 0.31% of total assets for 2001 and 0.64% for 2000.

The Department also regulates eight state chartered corporate fiduciaries. As of June 30, 2002, corporate fiduciaries had trust assets under administration of \$1.7 billion and corporate assets of \$13.3 million. Since the end of the calendar year 2001, two new corporate fiduciaries Hoosier Trust Company, Indianapolis, Indiana and German American Financial Advisors & Trust Company, Jasper, Indiana were approved and opened as state charters.

The trend analysis utilized the following consolidated balance sheet, consolidated income statement and ratio analysis for all state chartered commercial banks, savings banks, active industrial authorities and national commercial banks. Information to compile these schedules was obtained through the Federal Deposit Insurance Corporation's Database.

June 30, 2002 Financials

BALANCE SHEET

ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	State 6/30/02	National 6/30/02	State 12/31/01	National 12/31/01	State 12/31/00	National 12/31/00	State 12/31/99	National 12/31/99
Number of Banks	130	32	129	33	128	31	131	33
Trading Accounts	0	33	105	331	146	446	58	2
Interest Bearing Balances	287	906	264	437	146	272	130	250
Fed Funds Sold/Repurchase Agreements	0	0	2,165	1,667	544	1,027	409	719
Total Securities	8,759	11,896	8,509	11,702	5,877	11,695	6,036	9,145
Total Loans	25,930	48,509	24,910	54,038	18,129	40,408	17,613	25,562
Total Earning Assets	34,967	61,344	35,953	68,175	23,778	51,719	23,412	34,284
Total Assets	40,295	72,325	39,175	76,154	26,120	59,511	25,575	40,391
Average Assets	38,933	69,595	37,661	64,927	24,322	51,893	23,880	39,527
Total Deposits	29,428	35,886	28,831	39,954	20,575	34,807	19,802	26,313
Total Liabilities	36,068	65,747	35,212	69,835	23,605	53,826	23,241	36,115
Total Equity Capital	4,226	6,577	3,962	6,254	2,515	5,227	2,334	3,753
Loan Valuation Reserves	357	725	327	686	228	560	237	423
Total Equity Capital & Reserves	4,583	7,302	4,289	6,940	2,743	5,787	2,571	4,176
Total Other Real Estate	36	122	29	90	14	33	9	22
Total Charge-Offs	65	187	110	418	42	225	39	180
Total Recoveries	13	41	22	61	12	52	16	68
Net Charge-Offs	52	146	88	357	30	173	23	112

Employee Spotlight



This section allows us to welcome new employees, recognize accomplishments, and acknowledge those individuals who have left the Department.

A Very Warm Welcome to.....

DELLA MOORE-Della is a May 2002 graduate of the Indiana University, Kelley School of Business located in Bloomington, Indiana. She earned a Bachelor of Science in Business Administration, Finance. Della received an Academic Achievement Award for her 3.6 GPA. She joined the Department on May 13, 2002. Della resides in Indianapolis, Indiana, and is assigned to work in District II.

MATT HOWREY-Matt is a May 2002 graduate of the Indiana University, Kelley School of Business located in Bloomington, Indiana. He earned a Bachelor of Science in Finance and Operations Management. He is an active member of the Civic Leadership Development community organization. He joined the Department on May 13, 2002. Matt currently resides in Bloomington, Indiana, and is assigned to work in District II.

ALFRED WESTFALL-Al is a 1979 graduate of Indiana University where he earned his MBA. Al was employed with the Office of Thrift Supervision for twenty-three years. Al joined the Department on June 27, 2002. He resides in South Bend, Indiana, and he is assigned to work in District I.

Congratulations to.....

BARBARA COLE-Secretary to the Bank Division staff since May 17, 1999. Barb and her husband, John became grandparents to a set of twins. Kimberly and Zachary were born on October 8, 2002. Congratulations Barb on becoming a grandmother again! Also, Barb recently started her first semester of college at Ivy Tech where she is taking Business Administration Classes. Keep up the good work Barb!



Employee Spotlight Continued.....

Congratulations to **TROY POGUE**, EDP Specialist, and his wife Carrie on the birth of their son, Kyle David Pogue. Kyle was born on February 24, 2002. He weighed 6lbs./6ozs. And measured in at 20.5 inches long. Congratulations to **DAVE POGUE**, Credit Union Field Supervisor, on his first grandchild. See picture below:



Congratulations to **JAN RILENGE**, the Department's Accountant, on the birth of her second grandson, Blake. Blake was born on October 14, 2002, and weighed in at 8 pounds and 7oz.

Congratulations to Examiner **STEVE WACHTER**, and his wife, Stephanie, on the birth of their second child, Jakob Steven Wachter. Jakob was born on 11/18/02, and weighed 8lbs./15ozs. Jakob and Grandma Seashore are pictured below:



Congratulations to our examiners who received promotions. Best wishes for continued progress and success!

TOM FITE-Tom joined the Department on June 1, 1998. He was promoted to FIE II. Congratulations Tom!

Congratulations to **CHRIS DIETZ** on his promotion from FIE IV to FIE III effective October 27, 2002. Chris joined the Department on 6/11/2001 and is assigned to District I in the Bank & Trust Division.

JANELLE TIERNEY-Janelle joined the Department on June 1, 1998. She was promoted to FIE II. Congratulations Janelle!



Farewell and Best Wishes to....

Field Examiner **ANDREA HARROFF** departed on January 25, 2002.

Field Examiner **LEE BARNES** departed on June 11, 2002.

Bank Secretary, **PHYLLIS BROUSE**, worked at DFI for 13 years and she recently resigned to pursue her home based business, PT Professionals.

Field Examiner **AMANDA WHIPPLE** departed on November 21, 2002.

Best Wishes to ALL!



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STATE OF INDIANA

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[Http://www.dfi.state.in.us](http://www.dfi.state.in.us)



Mission Statement: *To regulate and supervise Indiana State chartered commercial banks, trust companies, savings banks, savings and loan associations, credit unions, pawnbrokers, money transmitters, industrial loan and investment companies, budget service companies, rental/purchase businesses, check cashers, and licensees under the Uniform Consumer Credit Code in a manner that*

- *Assures the residents of Indiana adequate and proper financial services,*
- *Protects the interests of depositors, borrowers, shareholders and consumers, and*
- *Promotes safety and soundness in Indiana State financial institutions.*

HAPPY HOLIDAYS!